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Faction Leader's Death Sparks Political Maneuvering

Despite outward shows of courtesy and politeness, Japanese politicians have proven to be as ruthlessly competitive as that Italian political mastermind Machiavelli could have wished. Only days after the May 15 death of former Foreign Minister Shintaro Abe, ruling Liberal Democratic Party officials began maneuvering to seize the leadership mantle from Prime Minister Toshiki Kaifu, who first won his current status as a compromise candidate. Even though he had been hospitalized for bile duct surgery in May 1989 and in poor health in recent months, Mr. Abe had been viewed by many ruling party members as next in line to succeed Mr. Kaifu. When Mr. Abe, who led the second-largest LDP faction, died, the struggle among the biggest factions for leadership honors came into the open. The end result of this intraparty competition will not be known until the fall, but the party presidency and premiership could go to Noboru Takeshita, under whose wing Mr. Kaifu reportedly holds his position. Mr. Takeshita was forced to relinquish the twin posts two years ago due to his involvement in the Recruit Co., Ltd. influence-peddling scandal. Mr. Kaifu, who is not a

in drawing up a new bill that would be considered in the upcoming extraordinary Diet session.

As before, the stumbling block continues to be who should serve on the team. Late last year a consensus appeared to develop among the three parties that only civilians would be allowed to participate. SDF leaders, however, would like their men to participate and, in fact, many supporters of the concept believe trained personnel would be a boon for the team. A number of LDP members have pushed for SDF participation. Earlier this year the DSP said that it would support such an arrangement if SDF team members were on leave from the armed forces or on loan (see JEI Report No. 10B, March 15, 1991). Support in the government for SDF inclusion in some form on the U.N. peace cooperation team surfaced in a May 21 speech by Mr. Kaifu in which he indicated support for an SDF role in U.N. peacekeeping missions and in comments from senior Foreign Ministry officials May 24. Komeito, which holds the critical swing votes in the upper house, has remained noncommittal on the membership issue.

Foreign Minister Taro Nakayama added another wrinkle May 14 to the peaceful use of SDF troops abroad by proposing that the law governing the dispatch of disaster relief teams overseas be revised to allow participation by SDF personnel. He further suggested that the debate on revising the 1987 disaster relief law could be conducted simultaneously with discussions on establishing the new organization to support U.N. peacekeeping activities.

In an effort to better organize the debate and avoid potential logjams LDP secretary general Keizo Obuchi proposed May 17 a new LDP research council to hammer out a bill. Mr. Obuchi apparently shares the prime minister's views about allowing military personnel to participate in U.N.-sponsored activities. The LDP secretary general named his predecessor, Ichiro Ozawa, to head the group. Mr. Ozawa was the driving force behind the original peace team plan and a main backer of SDF participation.

Government officials and LDP leaders apparently hope that the Japanese people will be more accepting of an expanded international role for the SDF in the aftermath of the gulf war. Public reaction was not unfavorable when the Japanese government in late April took the unprecedented step of dispatching a small flotilla of minesweepers to the Persian Gulf to assist with postwar mop-up operations (see JEI Report No. 17B. May 3, 1991). But once again Komeito appears to hold the trump card. If the second-largest opposition party continues to hold out, Mr. Kaifu may face yet another setback in his effort to guide Japanese foreign policy in a new direction.

Barbara Wanner

Japan's Personal Savings Dip As Overall Rate Holds Steady

In some quarters Japan's consumers are seen as having become remarkably profligate, abandoning their former frugality. Data released at various times over the past six months provide some support for such a view but also suggest that the implications are limited. As shown in the first column of the table, the personal savings rate has declined in Japan in recent years. While comparable data for 1990 are not available, the downward trend most likely continued. The figures in the first column are the basis of the widely held view that the

Japanese Savings and Investment Data, 1976-89

	Personal Savings Rate*	Overall Net Savings/ GNP	Overall Net Investment/ GNP	Adjustments**/ GNP	Net Lending to Rest of World/ GNP
1976	23.2%	20.2%	19.4%	-0.1%	0.6%
1977	21.8	19.6	18.5	0.4	1.5
1978	20.8	20.0	18.7	0.3	1.7
1979	18.2	19.0	20.0	0.1	-0.9
1980	17.9	18.3	19.5	0.1	-1.0
1981	18.4	18.3	18.0	0.1	0.4
1982	16.7	17.1	16.5	0.0	0.7
1983	16.1	16.2	14.4	0.0	1.8
1984	15.8	17.2	14.4	0.0	2.8
1985	15.6	18.1	14.5	0.0	3.6
1986	16.1	18.1	13.9	0.0	4.2
1987	14.7	18.5	14.5	-0.4	3.6
1988	14.3	19.7	16.4	-0.5	2.7
1989	14.2	19.5	17.1	-0.5	2.0

*Household savings/household disposable income.
**Statistical discrepancy and capital transfers.

Note: Net lending to rest of world -- the result of net savings minus net investment plus adjustments -- is equivalent to the external surplus.

Source: Calculated from data in Economic Planning Agency, Annual Report On National Accounts (Tokyo: Okura-sho Insatsu-kyoku, 1991).

personal savings rate in Japan, while still high, is approaching that of several other industrialized countries, such as West Germany's 12.5 percent rate in 1989. (In the United States savings were 4.6 percent of personal disposable income in both 1989 and 1990.) The personal savings rate is equal to the portion of household income (net of taxes but including such income supplements as social security) that is not spent on consumer goods and services.

Households, however, are not the only savers in Japan or elsewhere. For example, corporations save to the extent that they do not pay out all of their income in dividends. Even governments are potential savers if tax receipts exceed spending on those goods and services that are analogous to a household's day-to-day expenditures. The second column of the table takes all these additional sources of savings into account. (Conceptual differences in seemingly comparable U.S. data render comparisons difficult by understating U.S. overall savings behavior.) Because Japanese firms and the government have increased their savings in recent years, declining household savings pushed aggregate savings down only slightly between 1976 and a low point in 1983. If anything, the overall rate has increased modestly in recent years.

The remaining columns of the table show the disposition of savings in Japan. Most have gone to increase the size of the Japanese capital stock, as shown by the figure for net investment; this differs from the more commonly

used gross investment figure in that the net data do not include funds to replace capital stock that wears out or becomes obsolete. Gross investment and its savings counterpart -- savings plus the capital consumption allowance -- are substantially higher than the net savings and investment shown.

In another difference from common practice, the table incorporates overall investment regardless of purpose or source. Figures for 1989 show that 19 percent of Japanese investment went for housing, 15.8 percent for government-type investment and 2.4 percent for inventory accumulation; the remainder, 62.8 percent, went for plant and equipment spending by the corporate sector and, to a lesser extent, the government sector as well as by unincorporated businesses. The effect of using an inclusive definition of investment is to make the figure far higher than that for a single category, such as corporate plant and equipment spending.

The last column of the table, which shows surplus savings available for investment abroad, may be of the most interest to Americans. Between 1976 and 1982 the figures in this column remained relatively small as net investment and net savings declined in tandem. Between 1984 and 1986, however, overall savings rates stabilized while investment continued to decline. The result was larger surplus savings, reflected in bigger net outbound capital flows and their mirror image, larger external surpluses. In 1987 the pattern changed again as investment began to grow rapidly, eating into the savings surplus and leading to a smaller external imbalance. (The external surplus is similar to but slightly broader conceptually than the current account surplus.) Preliminary data suggest that this trend continued into 1990.

Overall the table suggests that changes in the personal savings rate have not been the dominant factor in determining overseas capital flows. Even overall savings are of limited importance. Rather, the dominant factor appears to be changes in investment behavior, particularly in recent years. With the prospect that investment spending is leveling off in Japan, this argument suggests that the external imbalance may change relatively little in the next year or two.

The direction of Japan's external imbalance also will depend on factors other than domestic savings and investment intentions. The early 1990s may witness a reprise of sorts of the mid-1980s when Japan's ballooning current account surpluses were in part a consequence of funds being pulled abroad by high real interest rates. The U.S. federal budget deficit could swell in response to antirecessionary spending coupled with sluggish tax receipts at the same time that Bonn's spending to reconstruct the former East Germany drains the German surplus. In addition, capital demands in Eastern Europe and the Middle East are likely to rise. The effect of such a worldwide capital shortage would be to raise real interest rates and pull funds out of Japan. The response in Japan would be less domestic investment or more savings, or both, compared to otherwise. In turn, a larger external surplus would follow.

Douglas Ostrom

New Twists In EC-Japan Ties

The May 22-25 visit by European Community Commission President Jacques Delors to Tokyo will offer him a chance to discuss bilateral tensions with

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